

The 1977 Annual Report of
Petrofina Canada Ltd.



Comparative Highlights

Financial

(In thousands of dollars except per share amounts)	1977	1976	% Change
Revenues	\$531,100	\$501,500	+ 5.9
Cash generation from operations	55,000	59,100	— 6.9
— per common share	5.50	5.91	— 6.9
Net earnings	30,700	22,000	+39.5
— per common share	3.07	2.21	+39.5
Dividends paid on common shares	11,500	11,000	+ 4.5
— per common share	1.15	1.10	+ 4.5
Capital expenditures	45,400	35,500	+27.9
Long-term debt at end of year	70,700	86,300	—18.1
Shareholders' equity at end of year	261,700	242,000	+ 8.1
Working capital	64,000	73,700	—13.2
Return on average capital employed	9.7%	8.5%	+14.1
Return on average shareholders' equity	12.2%	9.3%	+31.2
Salaries, wages, employee benefits	42,300	39,100	+ 8.2
Taxes charged against income	22,600	20,800	+ 8.7
Total taxes generated	140,100	130,700	+ 7.2
Crown royalties paid	22,800	19,000	+20.0

Operating

	Rates per Day		% Change
Production of crude oil and natural gas liquids — gross (barrels)	17,900	18,200	— 1.6
Natural gas produced and sold — gross (thousands of cubic feet)	81,100	82,300	— 1.5
Sales of sulphur (long tons)	421	488	—13.7
Crude oil runs to refinery (barrels)	75,400	78,900	— 4.4
Refined product sales (gallons)	2,385,100	2,553,000	— 6.6

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The financial results of our Company in 1977 showed a significant improvement over the prior year. Net income was \$30.7 million (\$3.07 per share) compared with \$22 million (\$2.21 per share) in 1976, an increase of 39.5%. The return on average capital employed in 1977 increased to 9.7% from only 8.5% in 1976. Although the upward trend is encouraging, it is still inadequate for a business faced with ever-increasing costs and risks.

The improvement was entirely due to increased profitability of our exploration and production operations. Marketing operations in eastern Canada are suffering from excess refining capacity in the industry. The current refining capacity in Canada is 2.2 million barrels per day with a 1977 demand in the neighbourhood of 1.8 million. This excess will be increased by about 50% during 1978 due to the start-up of two new refining facilities in eastern Canada.

Measures taken in recent years by both the Federal and Provincial governments to raise prices of crude oil and natural gas and to modify the impact of royalties and taxes have permitted improved rates of return on existing exploration and production investments, but these are being dissipated in the refined product marketplace. A continuation of these conditions works against the policy of the Canadian government which is to reach self-reliance in energy.

During 1977 new property and plant investment reached \$45.4 million. In 1978 we expect to increase our capital investment to \$50 million, comprised of \$25.2 million for exploration and development operations, \$18.6 million for manufacturing and \$6.2 million for marketing facilities.

Dividend payments in 1977 amounted to \$11.5 million. An increase of 5c per share to 60c was made in the semi-annual dividend payment on September 30. An additional \$18.8 million was required to meet long-term debt repayment commitments.

As a direct consequence of encouragement from the Alberta and Federal governments toward further oil sands development, our Company has been approached to join a consortium of large oil companies for the purpose of constructing a third plant. We are actively studying the proposal and, together with our Athabasca oil sands project partners, are evaluating its economic merit. We believe, however, that improvement in the current tax and royalty structure and perhaps some direct government support will be required to permit the project to be financed.

In August the Federal income tax authorities issued re-assessment notices against the Company reducing certain costs claimed for the years 1970 through 1975. If upheld, these assessments will increase the Company's Federal income taxes and interest by some \$20.2 million and reduce retained earnings by a like amount. Your management disagrees with the stand taken by the authorities which appears to be contrary to an understanding reached with them in respect of the same items for prior years. Acting with the advice of tax counsel, it is our intention to pursue the matter through the courts if necessary.

The Canadian economy in 1977, while facing rising unemployment and an inflation rate in the range of 8%, recorded a decline in the real growth of gross national product to 2.4% from 4.9% the year before. Projections for 1978 anticipate a slight improvement to about 4% growth in real terms. Prospects for capital investment in the general business sector appear unfavourable due to economic and political uncertainty. Capital investment in the energy field, to the contrary, is expected to maintain the momentum gained during 1977. This optimism can be attributed in part to the resolution last year of some of the political indecision which has plagued the oil and gas industry for several years:

- The Federal government announced a series of crude oil price increases in keeping with their commitment to raise Canadian prices toward international levels.

- Long-awaited new Federal regulations for exploration and development of Canada lands were finally presented to Parliament and should be enacted early in 1978.

- Agreement was reached between Canada and the United States to support construction of a major natural gas pipeline through Canada to transport northern frontier gas to southern markets in both countries.

- Both levels of government concerned with additional development of Canada's heavy oil and oil sands reserves indicated renewed interest and a sense of urgency toward new projects.

Encouraged by better prices for crude oil and natural gas and an extension of the exploratory drilling incentive programme in Alberta, increased drilling activity by the industry in the western Canadian basin resulted in a deep oil discovery in the West Pembina area which is being hailed as the most significant in Alberta in the past decade. Other successes in Alberta have led to a temporary surplus in Canada's supply of natural gas. Lack of immediate markets for this gas could act as a disincentive to continued exploration in gas-prone areas which would not be in the best interests of Canada in the long term. As a solution to this dilemma we would support the concept of a gas "swap" with the United States which would permit earlier production of this surplus than will otherwise occur.

Production of Canadian crude oil and natural gas liquids was maintained at an average of 1.6 million barrels per day, despite a further drop in exports to the United States. The increased Canadian demand is attributable largely to the first complete year of shipments into the Montreal area through the Interprovincial pipeline extension. Although projected at 250,000 barrels per day, the average throughput for 1977 was only 233,000 barrels per day. Consumption of refined petroleum products in Canada increased by 2.5%. At current rates of consumption and production, Canada is about 85% self-sufficient in petroleum.

Sales of natural gas at 6.5 billion cubic feet per day were higher than the previous year by 3%. Domestic consumption of Canadian natural gas represents about 60% of current production.

Two vacancies on your Board of Directors were filled by the election of Dr. J. B. Hyne, Ph.D., of Calgary, Alberta and Mr. Laurent A. Picard, D.B.A., of Outremont, Quebec.

Dr. Hyne is Dean of Graduate Studies, University of Calgary and Director of Research, Alberta Sulphur Research Ltd. Recognized as a world authority in sulphur chemistry, he spent several years with the National Research Council of Canada.

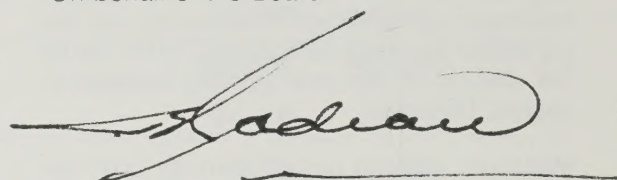
Mr. Picard, a professor at the School of Management of McGill University and at L'École des Hautes Études Commerciales, Université de Montréal, is a former president of the Canadian Broadcasting Corporation, and has been active in business as President of a large Canadian industrial company.

Both of these distinguished gentlemen are welcomed as valued additions to the Company directorate.

As noted elsewhere in this report, Mr. A. F. Campo, O.C., reached the retirement age for Board members during the year so was not eligible for re-election.

We again wish to recognize the importance of the contribution of our employees to the success of our Company.

On behalf of the Board



Chairman of the Board,
President and Chief Executive Officer

February 17, 1978

The Retirement of Mr. A. F. Campo



Mr. Alfredo Campo, founder of Petrofina Canada Ltd., retired as Chairman of the Board during this past year.

Born in Italy in 1905, Mr. Campo came to Canada in 1926 and undertook a career in the petroleum industry. With his talent, energy and ability, he rapidly became successful and distinguished himself as an outstanding petroleum marketer.

In 1953, with financial assistance from Petrofina S.A. of Belgium, he formed Petrofina Canada Ltd. In a remarkably short period of time this new petroleum company soundly established itself.

Today, Petrofina Canada Ltd. ranks seventh among the integrated petroleum companies of Canada. It owes its success in large measure to this energetic and farsighted man, who, over the past 24 years, inspired and guided its development.

The Board of Directors wish to express again to Mr. Campo their high admiration for his exceptional accomplishments in the Canadian petroleum industry and wish him a long and happy retirement.

Financial Review

Consolidated net earnings for 1977 were \$30.7 million, or \$3.07 per share, an improvement of 39.5% over 1976 earnings of \$22 million, or \$2.21 per share. Cash flow from operations amounted to \$55 million, or \$5.50 per share, compared with \$59 million and \$5.91 per share in 1976, a decrease of 6.9%. Total revenue increased 5.9% to \$531 million from \$502 million, due mainly to higher selling prices for crude oil, natural gas and refined products.

Expenditures for properties, plant and equipment were as follows:—

	1977	1976
	(millions of dollars)	
Exploration and production	\$22.2	\$17.0
Manufacturing	7.5	6.3
Marketing	15.7	12.2
	<u>\$45.4</u>	<u>\$35.5</u>

Working capital decreased by \$9.7 million to \$64 million at December 31, 1977.

The Company paid semi-annual dividends on its common shares of 55c per share on March 31, 1977, and 60c per share on September 30, 1977, for a total of \$11.5 million.

The rate of return on average capital employed was 9.7% compared with 8.5% in 1976. Although an improvement was realized, this level of return on invested capital is still significantly below the Company's target rate of return for new investment.

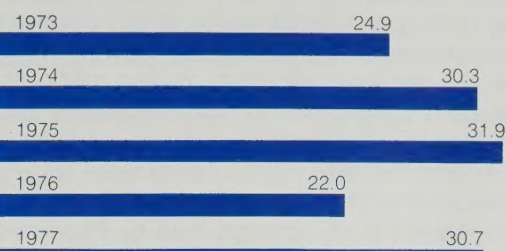
Exploration and Production

In 1977 the Company participated in the drilling of 91 wells on properties in which varying interests are held (compared with 79 in 1976) which resulted in 5 oil wells and 36 gas wells capable of production.

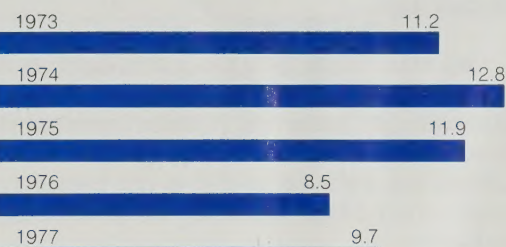
The Whitecourt area of Alberta was again the scene of considerable drilling activity both by industry and by the group in which the Company participates. During 1977 the Company participated in the drilling of 36 wells in this area which resulted in 2 oil wells and 13 gas wells. While this drilling activity did not result in any significant new discoveries, additions to the Company's reserves were made at Fir, Jackfish, Kaybob South and East Windfall. Plans for 1978 call for continued drilling to test the Company's Crown leases in this area, many of which are approaching the end of their terms.

At Wapiti, in northeastern British Columbia, (see map) the Company has a 50% working interest in 110,000 permit acres. A deep exploratory well, commenced in mid 1977, was drilling ahead at year-end. Total depth at about 14,500 feet should be reached before mid 1978.

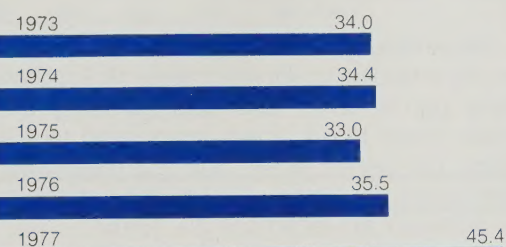
Net Earnings
(Millions of Dollars)



Return on Average Capital Employed (%)



Expenditures on Property Plant and Equipment
(Millions of Dollars)



Exploration in British Columbia became more attractive during the past two years due to increases in the price paid for natural gas, with the latest increase occurring on November 1, 1977. Accordingly, the Company has been active in acquiring new prospects and in exploring its existing lands.

In the Hanlan-Erith prospect in west central Alberta the Company continued to obtain encouraging results on its jointly held lands where its interests vary from 20% to 32.5% (see map). Five gas wells have now been completed in a deep formation. A further well is presently being drilled on Company acreage and other companies are drilling two offsetting wells to the south. This project continues to look attractive and should add significantly to the Company's gas reserves.

Negotiations were concluded to farm out the Colville Lake project in the Northwest Territories in which the Company holds a 100% interest in approximately 300,000 permit acres. By drilling a 4,000 foot basement test at their sole expense, (estimated to cost \$3 million) the farmees will earn a 50% working interest. The well was started early in 1978.

Industry's concern over proposed Federal land regulations and pipeline uncertainties had its effect on exploration activities in the Arctic Islands during the year. Both exploratory drilling and total footage drilled declined approximately 15% from 1976. No new major discoveries were recorded during 1977, although a significant southwest extension was made to the Hecla gas field. Stepout attempts to extend the Bent Horn oil pool were largely unsuccessful. The Company holds a 2% carried interest in all acreage held by Panarctic Oils Ltd.

The Fir gas field at Whitecourt was placed on production in July and was producing at a rate of 35 million cubic feet per day at year-end. The Company's share is about 4 million cubic feet per day.

At Keg River 7 wells were completed and tested in this shallow gas area and proved up additional gas reserves. A sales contract is not yet available so plans to construct further facilities are delayed and it is not presently known when these wells will be placed on production.

Additional gathering systems and compressor capacity were installed in Greencourt, Wildcat Hills, Gordondale and Figure Lake to enable the Company to sustain production and to meet contractual commitments.

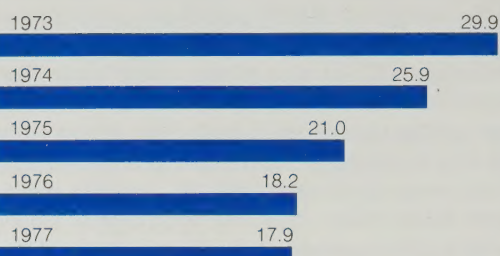
At December 31, 1977, the Company held varying interests in approximately 10.2 million gross permit acres and approximately 2.7 million gross lease acres, amounting to 1.9 million net permit acres and 1.3 million net lease acres, for a total of 3.2 million net acres, the same as at December 31, 1976.

Sales of crude oil and natural gas liquids produced from Company properties in western Canada in 1977 totalled 6.5 million barrels, before royalty, compared with 6.7 million in 1976. Natural gas sales, before royalty, amounted to 29.6 billion cubic feet compared with 30.1 billion cubic feet the previous year. Sulphur sales decreased to 154,000 long tons from 179,000 long tons in 1976. The average gross wellhead price received by the Company for crude oil was \$10.29 per barrel, an increase of \$1.74 over the previous year. The average price received for natural gas increased to \$1.30 per MCF from \$1.04, an increase of 26¢ over the previous year.

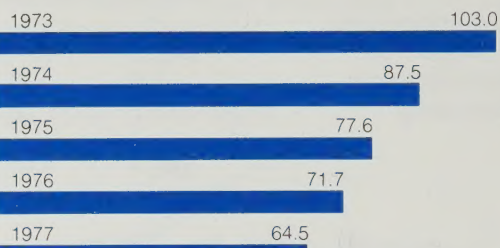
The Company's proven reserves, in terms of total energy, were essentially maintained during 1977 due to a reasonably successful gas exploration programme. Remaining proven reserves of crude oil and natural gas liquids at year-end were estimated at 64.5 million barrels, before royalty, and natural gas reserves were estimated at 745.2 billion cubic feet.

In 1977 the Province of Alberta made it known that it is prepared to consider the establishment of a third Athabasca oil sands mining project. No guidelines for industry have been established and the government advised that they will look at specific proposals on their

Gross Production-Crude Oil & Natural Gas Liquids
(Thousands of Barrels Per Day)



Gross Reserves-Crude Oil & Natural Gas Liquids
(Millions of Barrels)



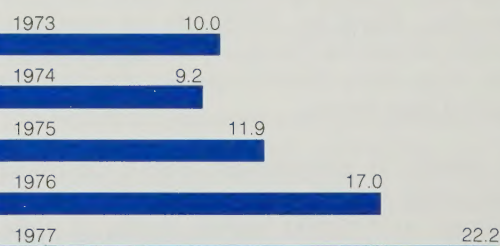
Gross Sales-Natural Gas
(Millions of Cubic Feet Per Day)

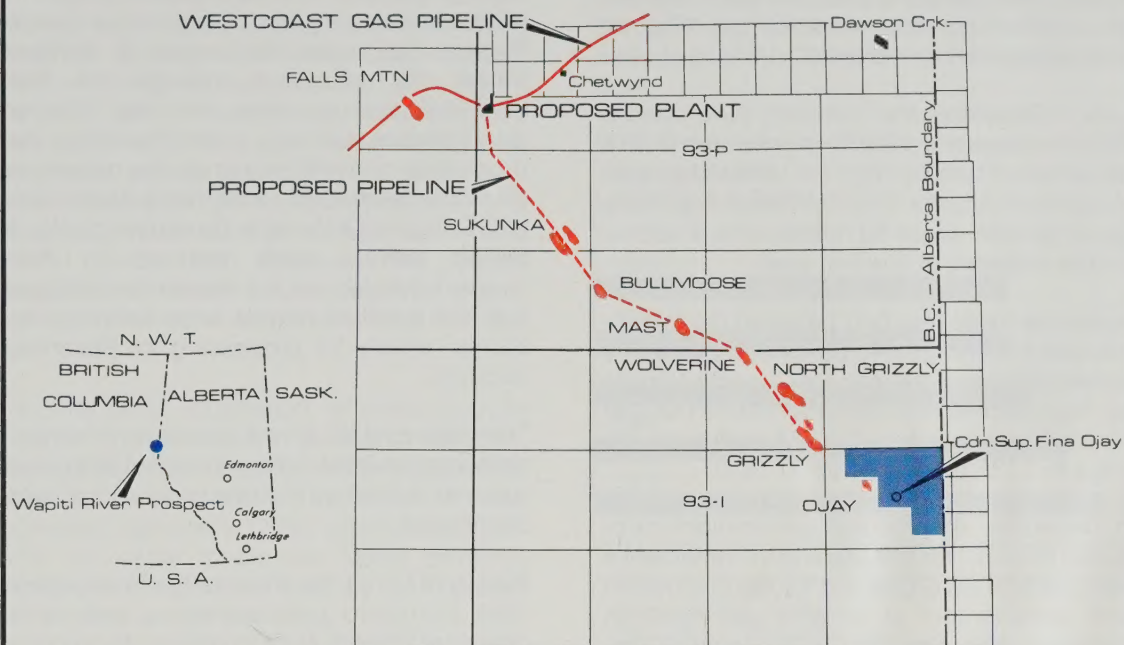


Gross Reserves-Natural Gas
(Billions of Cubic Feet)

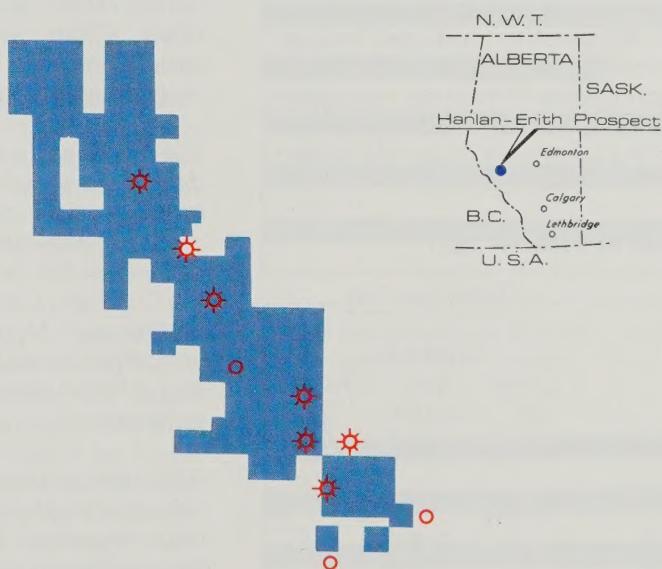
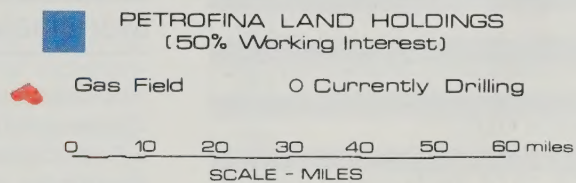


Exploration and Development Expenditures
(Millions of Dollars)

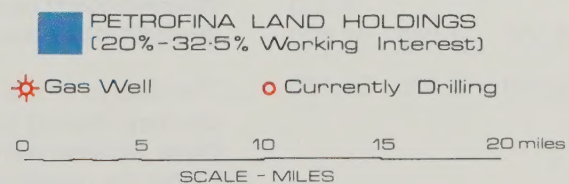




WAPITI RIVER PROSPECT



HANLAN - ERITH PROSPECT



individual merits. A major oil company announced its interest in establishing a consortium to develop a third plant and, in this regard, the Company participated in discussions with them and a number of other oil companies during the year.

Late in December the Company purchased a 45-50% interest in 12,025 gross acres (5,614 net acres) of coal rights in the Lethbridge area of southern Alberta. It is estimated that these lands contain about 50 million tons of recoverable reserves of thermal coal.

Agreement was reached between the Provincial and Federal governments to implement a series of price increases for Canadian crude oil. Four semi-annual increments of \$1.00 per barrel beginning July 1, 1977, will raise the price to \$13.75 on January 1, 1979.

In December the Federal government introduced Bill C-20 for first reading to implement a new Canada Oil & Gas Act for the disposition and development of oil and gas rights in Canada's territories and offshore regions. This Act, if passed, will incorporate the interim Federal land regulations which came into force August 1, 1977 and is considered to be more stringent with respect to land tenure, development, royalties and Canadian content requirements than the Canada land regulations suspended in 1971.

On November 23, 1977, the Supreme Court of Canada declared the Saskatchewan government's 1973-74 legislation imposing a royalty surcharge and mineral income tax on oil produced in the province to be ultra vires. It is estimated that the Company has paid about \$4.5 million in such charges under the invalid legislation. The Saskatchewan government introduced new legislation to impose an income tax on net revenue produced from oil wells in the province retroactive to January 1, 1974. Although details of this new legislation are not yet available, it is believed that the new tax will offset the payments under the invalid legislation.

Sales Volumes by Field — 1977

Field	Rates per Day		
	Crude Oil (Barrels)	Natural Gas Liquids (Barrels)	Natural Gas (MCF's)
Redwater	6,600		
Kaybob No. 3		2,400	
Kaybob No. 2		1,300	
Windfall		600	9,300
Wildcat Hills			12,400
Figure Lake			7,700
Calgary			7,600
Provost			6,300
Others	6,000	1,000	37,800
Totals	12,600	5,300	81,100

Supply

During the year 19 tankers carrying 11.7 million barrels of crude oil originating from the Persian Gulf were discharged at Portland, Maine, for shipment through the Portland-Montreal pipeline to our Pointe-aux-Trembles refinery. In addition to our own production of 6 million barrels, we purchased 10 million barrels of crude produced in western Canada. Of the total Canadian crude, 10 million barrels were shipped to Pointe-aux-Trembles via the Interprovincial pipeline and 6 million barrels were delivered to a Sarnia refinery for processing for Petrofina's account.

The total cost of all our crude requirements amounted to \$294 million. A total of 889 million gallons of finished petroleum products were distributed.

Also in 1977 marine shipments of petrochemicals increased substantially; a total of 18 chemical tankers were chartered for destinations such as Europe and the U.S. gulf coast.

Manufacturing

The Company's manufacturing facilities at Pointe-aux-Trembles, Quebec, operated with a high degree of efficiency in 1977. Crude throughput was down 4.4% due primarily to the oversupply situation in the market. Approximately 40% of the crude oil came from western Canada with the balance from the Middle East.

Emphasis was placed on the increased production of more valuable products, energy conservation and reduction of operating costs. Efforts were made to increase efficiency through various employee training programmes.

The Company's commitment to petrochemicals was demonstrated during 1977 when petrochemical production showed an increase of 43%. Most of this increased production was in the form of aromatics, which made the Company Canada's largest producer during the year. Modifications are being studied to further increase the petrochemical yield and, if found attractive, further projects will be pursued.

A number of projects were completed with a view to conserving energy in the manufacturing processes. Significant successes have been achieved in this field of endeavour with a reduction in refinery fuel of 17.6% over the period 1973-77. Several additional energy conservation projects are being studied. New projects were essentially limited to those concerning the environment to keep pace with government regulations.

The design of the refinery liquid effluent secondary treating facilities was completed and these facilities will be installed and operating before the government deadline of December 1, 1978.

Petrochemicals

All petrochemical sales, both domestic and export, were made through our subsidiary, Petrofina Canada Chemicals Ltd. Although sales volumes increased by over 50% during the year, profit margins were substantially reduced due to increased raw material cost and lower selling prices. Higher sales volumes in the export market made it necessary to obtain significant storage capacity both in the United States and Europe. This added capability will ensure future growth by improved customer services and reduced distribution costs.

The aromatics expansion is continuing as planned and will result in greater production. The orthoxylenes expansion will be delayed for at least one year and will be timed to meet increased demands. Other downstream projects are under study and future developments could be accelerated by an improvement in the overall economy.

Marketing

1977 will be recorded as one of the most difficult and challenging years ever experienced by the marketing sector of the Canadian oil industry. Several factors — including a sluggish economy, substantial excess refining capacity in eastern Canada and very limited growth in the demand for petroleum products — contributed to an extremely competitive market for all petroleum products.

Despite the adverse marketing conditions, the Company's major marketing plans and programmes progressed on schedule during the past year.

The Company's total number of retail gasoline self-serve locations was nearly doubled during 1977, in response to the tremendous customer acceptance of this relatively new marketing concept. A small number of self-serves, as well as several conventional outlets, have been developed in conjunction with convenience stores.

The programme of disposing of unsuitable service stations was continued during 1977; the basic objective being fewer but larger volume retail outlets. A few exceptionally promising properties were purchased for future development. In addition, a number of independent dealers were established under the FINA brand, providing the Company with improved retail representation, particularly in non-metropolitan areas.

The Company's new asphalt plant, located at North Bay, Ontario, was completed and placed in operation during August. This additional facility allows distribution of FINA asphalt

products over a much wider marketing area. The Company's "Standards of Excellence Programme", which continually emphasizes and promotes higher standards of customer service, was expanded during the year to include all of the Company's marketing operations.

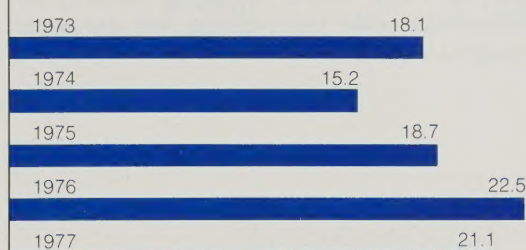
Sales of Gasoline
(Thousands of Barrels Per Day)



Sales of Middle Distillates
(Thousands of Barrels Per Day)



Sales of Other Products
(Thousands of Barrels Per Day)



Total Sales of Petroleum Products
(Thousands of Barrels Per Day)



Other Activities

Public Affairs

Energy today has become a national concern. The degree of penetration and participation of government in the petroleum industry in particular has increased significantly in recent years, and will increase further in the future. The public as well is becoming more aware of the energy policies of governments and of the resource development programmes of private industry. The news media has devoted considerable effort to the coverage of energy projects and policies.

That is why, in 1977, we undertook the development of a number of information and public affairs programmes aimed at a continuing, positive dialogue with many public groups. We hope, thereby, to respond better to the aspirations, views, and needs of Canadians and to better acquaint them with our obligations, our goals and our activities.

Employee Communications

Following an opinion poll conducted with readers of the Company employee publication, "FINA Pipeline", this publication's management has redefined its editorial policy to respond more acutely to the desire for information from employees across the country. This poll has, furthermore, made us aware of the importance of this personnel communications tool.

A series of informative meetings on the different Company activities was popular among employees in 1977. These meetings, with management participation, establish a climate for more useful dialogue among all participants. This programme will continue throughout 1978.

Community Involvement

As in the past, we have devoted a considerable budget to the support and promotion of various local and national activities in the fields of art, culture, education and community welfare services.

It is especially important to underline the volunteer participation of many Company employees in community activities. We heartily endorse this form of employee involvement since it ties in with the Company's own social endeavours and because it contributes to personal improvement.

Environmental Protection

The Company continued its efforts in every sphere of activity to protect the environment in which it operates, while making a significant contribution to meeting the Canadian demand for petroleum products. The Company made important gains in conservation of energy which have a beneficial effect, not only for the long term energy supply outlook, but also in terms of a reduction in the level of pollutants entering the environment.

Through its management the Company continued to provide active support to cooperative industry efforts by participating in 27 committees or task forces organized to protect the environment. Cooperatives for prevention, containment and cleanup of oil spills have been established at appropriate locations across Canada and our Company is a member of 35 of these.

All operating departments emphasized monitoring of oil and gas pressure systems for control of corrosion, and inspection procedures for safety equipment were updated. Staff training in environmental requirements continued to be given a high priority.

Consolidated Statements of Earnings and Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1977

Earnings

	1977	1976
	(in thousands of dollars)	
Revenues:		
Operating revenue	\$527,670	\$495,183
Interest and other	3,388	6,344
	531,058	501,527
Expenses:		
Product costs, operating and administrative expenses	443,320	421,760
Depreciation	15,631	15,066
Depletion	7,145	6,771
Amortization of premiums paid on acquisitions	550	444
Interest on long-term debt	7,970	10,562
Other interest	3,146	4,055
Taxes other than income taxes	8,123	8,199
Income taxes	14,502	12,634
	500,387	479,491
Net earnings	\$ 30,671	\$ 22,036
Earnings per share	\$ 3.07	\$ 2.21

Retained Earnings

	1977	1976
	(in thousands of dollars)	
Retained earnings, beginning of year	\$126,684	\$115,621
Add net earnings	30,671	22,036
	157,355	137,657
Deduct dividends	11,490	10,973
Retained earnings, end of year	\$145,865	\$126,684

See accompanying summary of accounting policies and notes

Petrofina Canada Ltd.

(Incorporated under the laws of Canada)

Consolidated Balance Sheet

DECEMBER 31, 1977

Assets

	1977	1976
	(in thousands of dollars)	
Current:		
Cash	\$ 3,825	\$ 10,446
Short term deposits	4,800	8,000
Accounts receivable	85,992	84,099
Oil import compensation recoverable	18,558	6,263
Due from affiliated companies	2	1,772
Inventories		
Oil products	135,358	78,315
Materials and supplies	9,882	9,520
Prepaid expenses	4,483	3,786
 Total current assets	 262,900	 202,201
 Investments and Advances (note 1)	 12,545	 17,415
 Properties, Plant and Equipment (note 2)	 305,170	 285,745
 Deferred Charges	 2,257	 2,156
 Premiums Paid on Acquisitions	 3,096	 3,461
	\$585,968	\$510,978

See accompanying summary of accounting policies and notes

On behalf of the Board:

P. A. Nadeau, Director

W. A. Arbuckle, Director

Liabilities and Shareholders' Equity

	1977	1976
	(in thousands of dollars)	
Current:		
Accounts payable and accrued charges	\$ 68,954	\$ 51,654
Income taxes payable	13,902	—
Unclaimed dividends	977	849
Due to parent company	42,152	13,884
Due to affiliated companies	4,709	5,949
Notes and bills payable	55,672	43,790
Current maturities of long-term debt	12,496	12,391
Total current liabilities	198,862	128,517
Long-Term Debt (note 3)	70,672	86,335
Deferred Income Taxes	54,445	53,998
Minority Interest	263	142
Shareholders' Equity:		
Capital (note 4)		
Common shares of \$10 par value:		
Authorized - 12,000,000 shares		
Issued - 10,008,574 shares		
(1976 - 9,975,174)	100,086	99,752
Contributed surplus	15,775	15,550
Retained earnings	145,865	126,684
	261,726	241,986
	\$585,968	\$510,978

Petrofina Canada Ltd.

Consolidated Statement of
Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1977

	1977	1976
	(in thousands of dollars)	
Source of funds:		
Net earnings from operations	\$30,671	\$22,036
Amounts not affecting working capital:		
Depreciation, depletion and amortization	23,721	22,626
Deferred income taxes	447	14,325
Minority interest	121	86
Total funds from operations	54,960	59,073
Long-term borrowings	3,139	3,021
Sale of properties, plant and equipment	3,192	4,040
Issuance of common shares	559	—
Net decrease in investments and advances	4,870	—
	66,720	66,134
Use of funds:		
Additions to properties, plant and equipment	45,393	35,513
Repayments of long-term debt	18,802	15,302
Dividends	11,490	10,973
Net increase in investments and advances	—	237
Premiums paid on acquisitions	185	—
Increase in deferred charges	496	394
	76,366	62,419
Net (decrease) increase in working capital	(9,646)	3,715
Working capital, beginning of year	73,684	69,969
Working capital, end of year	\$64,038	\$73,684

See accompanying summary of accounting policies and notes

Summary of Accounting Policies

DECEMBER 31, 1977

15

Principles of consolidation

The consolidated financial statements include the accounts of Petrofina Canada Ltd. and its subsidiaries, all but one of which are wholly-owned.

Inventories

Oil products are stated at the lower of cost and net realizable value. Cost of oil products has been determined on the basis of the last-in, first-out method except for crude oil in transit, which is carried at actual cost. Inventories of materials and supplies are stated at the lower of average cost and replacement value.

Investments and advances

Investments are stated at cost. Advances, which consist of mortgages and other receivables, are shown at anticipated realizable value.

Properties, plant and equipment

The full-cost method of accounting is followed whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized.

Refining, marketing and other properties, plant and equipment are carried at cost.

Depreciation and depletion

Amounts capitalized under the full-cost method are depleted on the composite unit of production method based on estimated proven reserves of oil, gas and other saleable products. Depreciation on production equipment, gas plants and related facilities is provided on the same basis.

Depreciation on refining, marketing and other properties, plant and equipment is based on the estimated service lives of the assets, calculated on the straight-line method, except for motor vehicles where the diminishing balance method is used. Depreciation is calculated at the following average rates:

Buildings	2-1/2%
Equipment	6-2/3%
Motor vehicles	30%

Premiums paid on acquisitions

Premiums represent the excess of the purchase price over the value ascribed to net tangible assets of businesses acquired. The premiums are amortized on the straight-line basis over their estimated useful lives, which range from five to thirty years.

Foreign currencies

Amounts in currencies other than Canadian dollars have been translated as follows: current assets and current liabilities — at the rates of exchange prevailing at the end of each year; long-term debt — at the rates of exchange prevailing at the dates when the debts were incurred; revenues and expenses — at average rates of exchange through the year.

Oil import compensation

Under the oil import compensation programme the Federal Government compensates eligible importers for certain cost increases with respect to petroleum imported for consumption in Canada, provided the importing company voluntarily maintains prices for certain products obtained from imported petroleum at levels not to exceed those suggested by the Government. Compensation received or recoverable under this programme is reflected as a reduction of product costs or inventories as applicable.

Pension plans

Current service costs of pension benefits are accrued and funded on a current basis. Unfunded past service costs are charged to income as paid.

Income taxes

The Company provides for income taxes on the tax allocation basis of accounting under which the provision for income taxes is computed on the basis of income reported in the financial statements rather than that reported in the Companies' tax returns. Taxes provided on income deferred for tax purposes by claiming deductions greater than the related charges in the accounts are reflected as deferred income taxes in the Consolidated Balance Sheet. Income tax savings arising from investment tax credits originating in the current and prior years are reflected in the earnings of the year in which they first reduce taxes otherwise payable.

Petrofina Canada Ltd.

Notes to the Consolidated Financial Statements

DECEMBER 31, 1977

1. Investments and Advances

Investments, amounting to \$9,150,000, consist of a 2% carried interest in the net production income of Panarctic Oils Ltd. and shares of pipeline companies. Advances, amounting to \$3,395,000, consist of mortgages and other receivables.

2. Properties, Plant and Equipment

	1977		1976
	Cost	Accumulated depreciation and depletion (in thousands of dollars)	Net book value
Exploration and production	\$253,374	\$118,140*	\$135,234
Refining	181,062	81,228	99,834
Marketing	111,521	41,419	70,102
	<u>\$545,957</u>	<u>\$240,787</u>	<u>\$305,170</u>

* includes depletion of \$93,611

3. Long-term Debt (in thousands of dollars)

Secured:

Production loans secured by certain oil and gas properties, payable in various amounts through 1983 with interest between 3/4% and 1% above the prime rate	\$ 3,409	
Other loans	181	\$ 3,590

Unsecured:

Loans with interest between 1/2% and 1-1/4% above the prime rate, due in varying annual instalments through 1983	66,290	
Loan in the amount of U.S. \$2,500,000 (Canadian \$2,738,000 translated at year-end exchange rate) with interest at 3/4% above U.S. base rate payable U.S. \$500,000 annually to 1982	2,637	
6-1/8% promissory notes totalling U.S. \$3,500,000 (Canadian \$3,833,000 translated at year-end exchange rate) payable U.S. \$850,000 annually to 1980 and the balance in 1981	3,790	
6% loans totalling U.S. \$1,592,000 (Canadian \$1,744,000 translated at year-end exchange rate) due in varying semi-annual instalments from 1978 to 1981	1,648	
Non-interest bearing advance by parent company in the amount of U.S. \$5,000,000 (Canadian \$5,475,000 translated at year-end exchange rate) with no maturity date, except not due within one year	4,980	
Other loans	233	79,578

83,168

Less instalments included in current liabilities

12,496

\$70,672

Annual payments required to retire long-term debt including estimated repayment of production advances and loans amount to approximately \$26,777,000 in 1979, \$15,306,000 in 1980, \$12,490,000 in 1981 and \$10,095,000 in 1982.

4. Capital Stock

During the year the Company issued 33,400 common shares for cash. An excess of \$225,000 representing proceeds over par value has been credited to contributed surplus.

Under the Company's stock option plan 95,100 shares are reserved to meet rights outstanding which are exercisable at \$16.75 per share before April 20, 1982.

5. Commitments and Contingencies

Income taxes

The Federal taxation authorities have examined certain transactions with a non-resident wholly-owned subsidiary company and have recently issued notices of reassessment against the Company reducing costs claimed for the years 1970 through 1975. These assessments, if upheld, would increase the Company's provision for income taxes and interest by \$20,200,000 in total.

Management strongly disagrees with the assessments which appear to be contrary to an understanding reached with such authorities in respect to prior taxation years. The Company's tax counsel have also recommended that these assessments be contested and, accordingly, no provision has been made in the accounts for these amounts.

Annual rental

Annual rentals payable on long-term leases (three years and over) for real property amount to approximately \$2,017,000 (1976 — \$2,598,000).

6. Remuneration of Directors and Officers

During the year, the seventeen directors and one former director of the Company received \$39,000 as directors and nine officers of the Company (two of whom were directors) received \$688,000 as officers.

7. Pension Plans

The unfunded past service liability is estimated, on a present value basis, to be \$9,268,000, which will be funded by equal annual payments over the next thirteen years.

8. Anti-Inflation

Under the Federal Government's anti-inflation programme the Company is subject to mandatory compliance with legislation which controls shareholder dividends until October 13, 1978, and prices, profit margins and employee compensation until December 31, 1978.

Auditors' report

To the Shareholders of
Petrofina Canada Ltd.:

We have examined the consolidated balance sheet of Petrofina Canada Ltd. as at December 31, 1977 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the results of operations of the Company for the year ended December 31, 1977 and, subject to the final determination of the income tax matter referred to in note 5, the financial position at December 31, 1977 and the changes in financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

Montreal, Canada
February 16, 1978.

Petrofina Canada Ltd. and Subsidiaries

Five Year Review of Operations

	1977	1976	1975	1974	1973
Statistical					
Crude oil and natural gas liquids production, before royalty (thousands of barrels)	6,500	6,700	7,700	9,500	10,900
Natural gas sales, before royalty (millions of cubic feet)	29,600	30,100	30,500	30,900	34,000
Number of wells drilled in which Company had participation	91	79	65	51	75
Number of wells completed in which Company had participation	41	49	29	23	28
Sulphur sales (long tons)	153,800	178,700	144,500	173,000	221,000
Gross acreage (thousands of acres)	12,900	13,000	18,100	30,600	32,400
Net acreage (thousands of acres)	3,200	3,200	4,100	5,000	6,300
Crude oil runs to refinery stills (thousands of barrels)	27,500	28,900	26,600	22,600	22,500
Total outlets used in distribution of refined products	1,120	1,215	1,462	1,552	1,593
Number of employees	2,412	2,352	2,347	2,203	2,191

Financial

(in thousands of dollars)

Revenue	\$531,100	\$501,500	\$398,800	\$360,600	\$338,500
Net earnings	30,700	22,000	31,900	30,300	24,900
Depreciation, depletion and amortization	23,700	22,600	21,300	22,100	20,000
Total cash generated	55,000	59,100	74,900	65,500	43,700
Working capital	64,000	73,700	70,000	49,400	24,000
Total assets	586,000	511,000	518,500	448,400	400,800
Long-term debt	70,700	86,300	98,600	113,200	111,200
Book value of shareholders' equity	261,700	242,000	230,900	210,000	188,600

PRINCIPAL OFFICER

P. A. Nadeau, Chairman of the Board,
President and Chief Executive Officer

SENIOR VICE-PRESIDENT

J. E. Baugh, Exploration & Production

VICE-PRESIDENTS

T. H. Allman, C.A., Treasurer

G. A. Craig, Comptroller

J. A. Dodd, Manufacturing

N. S. Mahlab, Administration

A. W. McLeod, General Counsel
and Secretary

R. J. Redding, Marketing

N. H. Van Son, Supply & Logistics

DIRECTORS

***W. A. Arbuckle**, Chairman,
Celanese Canada Limited

J. E. Baugh, Senior Vice-President,
Petrofina Canada Ltd.

F. M. Covert, O.B.E., D.F.C., Q.C.,
Senior Partner, Stewart, MacKeen & Covert

A. Demeure de Lespaul, President
and Chief Executive Officer, Petrofina S.A.

Richard I. Galland, Chairman of the
Board and Chief Executive Officer,
American Petrofina, Incorporated.

The Hon. J. J. Greene, P.C., D.F.C., Q.C.,
Member, Soloway, Wright,
Houston & Greenberg

Dr. James B. Hyne, Dean of Faculty of Graduate
Studies, University of Calgary

Emmanuel Lamy, Honorary Chairman,
Crédit du Nord

John D. Leitch, President,
Upper Lakes Shipping Ltd.

***Roger Létourneau**, Q.C., Senior Partner,
Létourneau, Stein, Marseille, Delisle & LaRue

J. Meeus, Chairman, Petrofina S.A.

***K. S. C. Mulhall**, Financial Consultant

P. A. Nadeau, Chairman of the Board,
President and Chief Executive Officer,
Petrofina Canada Ltd.

Blancke Noyes, Managing Director,
Loeb Rhoades, Hornblower & Co.

Laurent A. Picard, Professor, Ecole des Hautes
Etudes Commerciales, Université de Montréal
& McGill University

Sam Steinberg, Chairman of the Board
and Chief Executive Officer,
Steinberg's Limited

Peter N. Thomson, Chairman,
TIW Industries Ltd.

**Member of the Audit Committee*

Executive Offices

The Royal Bank of Canada Building,
1 Place Ville Marie, Montréal, Québec
H3B 4A9

Auditors

Clarkson, Gordon & Co.

Transfer Agent

Montreal Trust Company

Registrar

The Royal Trust Company

NORMAND LÉPINE

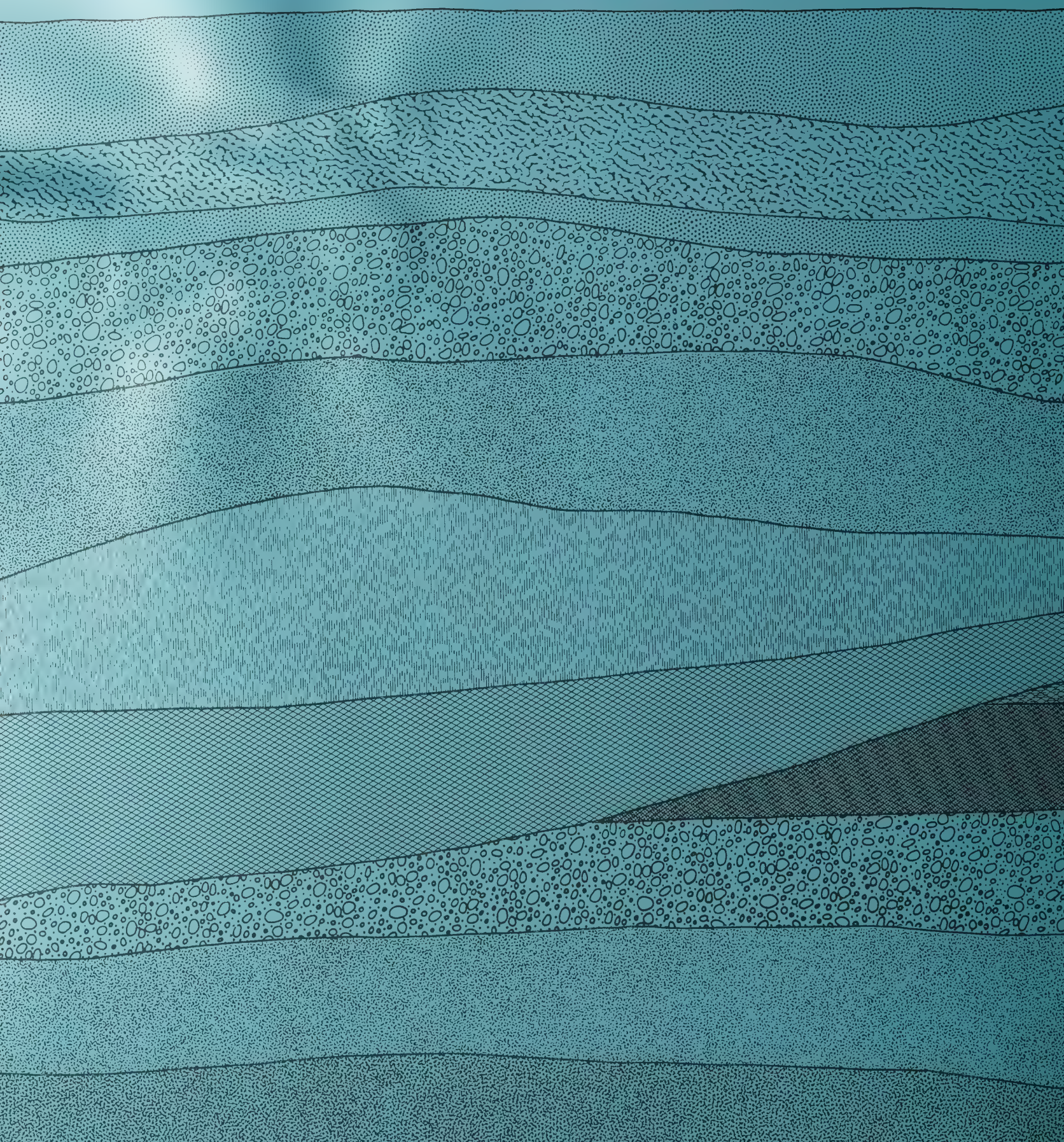
**PUBLIC RELATIONS OFFICER
PETROFINA CANADA LTD.**

**1 PLACE VILLE MARIE
MONTREAL, P.Q. H3B 4A9
TEL.: 866-3911**

ANNUAL MEETING

The Annual Meeting of
Shareholders will be
held in the Auditorium,
Mezzanine Floor 2
(M-2),
The Royal Bank of
Canada Building,
1 Place Ville Marie,
Montréal, Québec,
at 12:00 noon on
April 19, 1978.

Ce rapport a été publié
en français et en
anglais. Si vous
préférez un exemplaire
français, veuillez en
faire la demande au:
Secrétaire, Petrofina
Canada Ltée,
1 Place Ville Marie,
Montréal,
Québec, Canada
H3B 4A9



AR13



FINA IN CANADA

FINA IN CANADA



Petrofina Canada Ltd. is the seventh largest integrated petroleum company in Canada, with assets and annual sales each exceeding half a billion dollars. Head office is located in Montreal.

Established first in Alberta in 1950, and then in Quebec in 1953, FINA today employs some 2,300 people in Canada. Its annual production of crude oil and natural gas is the eighteenth largest in the country. With a refining capacity of 90,000 barrels a day, FINA is the fourth largest refiner in Quebec, and the ninth in Canada. Its marketing network, concentrated in Eastern Canada, comprises some 1,500 outlets.

Petrofina Canada is part of the worldwide Petrofina S.A.¹ Group, of Brussels, Belgium. Management is entirely Canadian, and the Company's operations in Canada are completely autonomous.

(1) Petrofina S.A. holds about 72% of the share capital of Petrofina Canada Ltd.

EXPLORATION AND PRODUCTION

FINA's annual production of crude petroleum and natural gas in Canada amounts to the equivalent of 11 million barrels, which ranks it eighteenth in volume.

The Company holds various interests in 13 million acres of concessions, which is equivalent to over three million acres wholly owned. It has interests in some 2,000 active wells.

Its proven reserves of oil and gas are 70 million barrels and 700 billion cubic feet respectively.

FINA is especially active in the production of natural gas, and annual sales exceed 30 billion cubic feet. FINA operates modern gas processing plants at Wildcat Hills, near Calgary, and at Greencourt, near Edmonton, as joint ventures with other companies.

The Company's first exploration and development projects were undertaken in 1950, in the Coronation region of Alberta. At the time, FINA produced only a few barrels of petroleum. 1955 marked the beginning of a period of intense development and expansion. The number of wells in which FINA held an interest rose to more than 300, and oil production reached 3.5 million barrels. The purchase of three independent exploration companies made it possible to increase the

Company's proven reserves by 55 million barrels. During that same year, important discoveries were made in the Whitecourt region and the decade which followed was marked by a series of others.

FINA's annual investments in the exploration and development of new sources of petroleum and natural gas have reached an estimated \$25 million in 1978.

FINA is actively interested in the development of the Athabasca oil sands of Alberta, one of the largest known oil reserves in the world. The Company and partners hold 103,000 acres of concessions in this region with FINA being the operator on behalf of the group.

The gradual depletion of conventional sources of Canadian oil poses an unprecedented challenge to the petroleum industry. Financial risks are particularly high, the constraints imposed by technology, geology, climatic conditions and environmental protection appear sometimes insurmountable, and competition among exploration companies is intense.

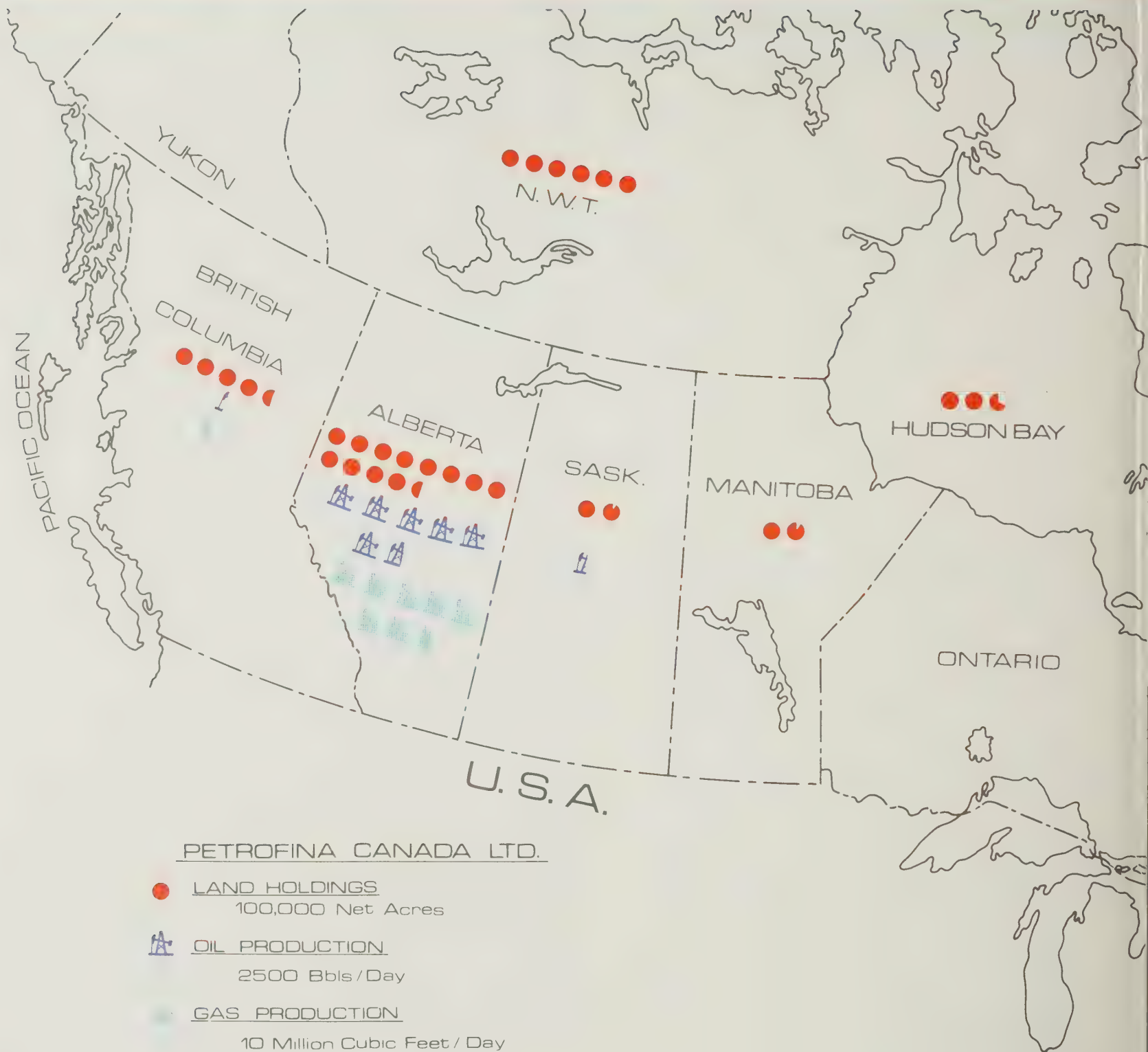
The development of new reserves requires detailed knowledge of the territory, intensive analysis of geological data, a good deal of instinct

and intuition, and a lot of perseverance and daring.

Faced with new developments in the Canadian economy and energy supply, FINA is stepping up its activity in the prospective oil and gas areas of Alberta. In addition, the Company holds interests in the frontier regions of the Arctic and the Atlantic coast. In the Arctic Islands, the Company holds a carried interest in the lands of Panarctic Oils Ltd. FINA is also involved in the exploration of a number of gas fields in British Columbia.

The future of petroleum supplies in Canada gives rise to both technologic and economic problems. The issue is not so much whether the resources exist — they certainly do — but rather how to find and develop them, and to determine “how much” the country is ready to invest in extracting them. The Canadian strategy for the future is to gain as great a degree of self reliance as possible. This must be done by development of a viable technology, by huge investments in the oil sands and heavy oil deposits, and by aggressive exploration for Canada’s undiscovered conventional oil and gas. FINA plans to continue to participate in these activities.







REFINING AND PETROCHEMICALS

FINA's refining capacity has grown continuously since 1956. It has risen steadily from 20,000 to 90,000 barrels a day, placing FINA in fourth place among Quebec refiners and ninth in the country.

Located in Pointe-aux-Trembles on the Island of Montreal, in the heart of Canada's largest refining centre, the FINA refinery occupies 400 acres, employs more than 430 persons, operates 24 hours a day seven days a week, and manufactures over 80 petroleum and petrochemical products.

The refinery has a storage capacity of 7.5 million barrels, and among its storage facilities is one of the largest tanks at the Montreal refineries, with a capacity of 420,000 barrels (15 million imperial gallons).

Refinery operations consume 9,000 barrels of fuel daily and over 200 million kilowatt-hours each year.

Roughly one third of the crude oil refined by FINA is obtained from oilfields in the Canadian West, the remainder being imported from the member countries of OPEC (Organization of Petroleum Exporting Countries). However, it is gen-

erally considered that towards the mid-1980's all crude oil refined in the East of the country will be of foreign origin, as Canadian resources will not be able to meet internal demands satisfactorily for a certain number of years.

Crude oil is transported to the Pointe-aux-Trembles refinery via the Edmonton-Sarnia-Montreal pipeline, in the case of Canadian oil, and the Portland-Montreal pipeline in the case of imported oil.

Petrochemicals

The reduced rate of growth in consumption of conventional petroleum products (gasoline, oil, etc.) has largely contributed to the re-orientation of the large refining capacity of the Canadian oil companies in the past few years. Petrochemical products have thus become a very important factor in refining. It is for this reason that FINA intends to devote increasingly large resources to exploitation in this sector and to development of new markets. In fact, FINA is one of the largest

Canadian producers of aromatics, petrochemical derivatives which are widely used in the manufacture of plastics.

Petrochemicals are derived by a series of processes which break down the complex molecular structures of petroleum and reunite selected components by chemical reaction to form the desired product. It is estimated that petrochemicals contribute more than 90% to the production of chemical products of organic origin.

FINA's petrochemical production has undergone a remarkable expansion in recent years.

In 1975, FINA set up a subsidiary to sell the Company's petrochemical products on a worldwide basis. Petrofina Canada Chemicals Ltd. was established with Cosden Oil & Chemical Company, as minority shareholder. Cosden, a wholly owned subsidiary of American Petrofina, Incorporated, has built an international reputation through its products and its patented processes which are licensed in a score of countries. Cosden's manufacturing operations center at Big Spring, Texas, with additional plants at Calumet City, Illinois, Port Arthur, Texas and Carville, Louisiana.



REFINING AND PETROCHEMICALS PROCESSES

Refining can be defined as the conversion of crude oil into finished products for distribution on the market.

Petroleum is made up of a wide variety of hydrocarbon compounds. Since each compound has a different boiling point, the physical separation or fractionation of the various components of petroleum is effected by distillation (atmospheric and in a vacuum). This initial fractionation separates crude oil into gases (methane, ethane), propane and butane, naphtha, kerosene, middle distillates, gasoil and the residual products from which asphalt is made.

By means of other more complex processes, several of these initial fractions of petroleum are transformed into more highly refined products or treated to improve their quality.

The petroleum fraction from which most petrochemicals are manufactured is called naphtha. This is a low boiling fraction and accounts for about 20% of the crude oil barrel.

Naphtha is catalytically treated in order to increase its content of aromatics and three of these compounds — benzene, toluene and xylene — are extracted and purified. FINA sells these and other chemical “building blocks” to chemical processors for conversion to intermediate classes of compounds called plastics.

Some of the more common plastic compounds are polyethylene, polystyrene, polyvinylchloride (PVC), polyurethane, ABS, nylon. These compounds are converted to a wide range of objects in daily use such as bottles, pipes, electrical appliances, toys, automobile parts, carpets, furniture, curtains, clothing, etc.

PETROLEUM-BASED PRODUCTS MANUFACTURED BY FINA AND THEIR MAIN END USES

Asphalt: road surfacing, roofing, piping.

Jet engine fuel.

Diesel: fuel for locomotives, trucks, machinery.

Gasoline: fuel for automobiles and propeller-driven aircraft.

Heating-oil: domestic, industrial and commercial heating.

Kerosene: paints.

Bunker oil: fuel used by ships.

Propane gas: heating, cooking, refrigeration, air conditioning.

Aliphatic solvents: combustibles, waxes, insecticides.

PETROCHEMICAL PRODUCTS MANUFACTURED BY FINA AND THEIR MAIN END USES

Benzene: paint removers, paintbrush bristles, tires, furniture.

Chemical naphtha: antifreeze, polyethylene bags.

Nonene: hoses.

Orthoxylene: toys, furniture, automobile parts.

Polybutene[●]: caulking compound, adhesives, grease, lubricants.

Toluene: varnish, lacquers, paints, explosives, insulating material.

Xylenes: paint thinner, industrial solvents.

[●]See photo opposite



MARKETING

Today, FINA sells an average of more than 70,000 barrels of petroleum products per day, of which 25,000 barrels are automotive fuels.

The Company's marketing network comprises some 1,500 service stations, sales agencies and bulk distribution centres in the Maritimes, Quebec and Ontario.

To keep these various outlets supplied, over 800 million gallons of refined petroleum products are transported annually by truck, tanker ship, railway and pipeline.

FINA's marketing activity covers a variety of petroleum products: aviation gasoline, automotive gasoline (premium, regular and lead-free), jet fuel, stove and furnace oil, diesel and heavy fuel, asphalt, solvent, lube oil, greases. The Company also offers on the retail market a complete range of automobile parts and accessories such as tires, batteries, and accessories.

The heating oil market in the residential, commercial and industrial sectors is supplied by FINA itself and through wholly owned subsidiaries operating in the Montreal and Ottawa-Hull areas: Joseph Elie Ltd., and Independant Fuels and Lumber Ltd.

Marketing petroleum products calls for continuing efforts of imagination, adaptability and efficiency. The economic situation changes rapidly, the needs of the marketplace are very diversified and technology is in a constant state of rapid development.

Two examples serve to illustrate this challeng-

ing combination of circumstances: self-serve stations and lead-free gasoline.

At the end of 1975, the FINA network counted only nine self-serves. By the end of 1977, there were close to 50 in operation. This new type of retail outlet not only permits savings in the costs of marketing, which are passed on to the consumer, but also corresponds to important changes in the marketplace and in consumer habits.

Lead-free gasoline, on the other hand, is the result of the application of anti-pollution measures imposed by government on North American automobile manufacturers. For oil companies, these measures created a real challenge. New refinery techniques were quickly developed to manufacture the new gasoline and considerable investments of capital were needed for conversion of service station pumps. At the end of 1975, only 26% of FINA stations offered lead-free gasoline. A year later, the coverage reached more than 90%.

In the extremely competitive situation of the present years, marketing of petroleum products, especially automotive gasoline and heating oil, requires on-going promotional and advertising programs, plus strict, continuous control of product quality and customer service. FINA, however, decided long ago not to participate in promotional campaigns involving gimmicks. This policy has won the Company the loyalty of its customers and a reputation for integrity in the marketplace.

RETAIL PRICE BREAKDOWN OF GASOLINE SOLD IN CANADA

The present price of a gallon of gasoline can be broken down as follows:

TOTAL TAXES
(federal and provincial) 60%

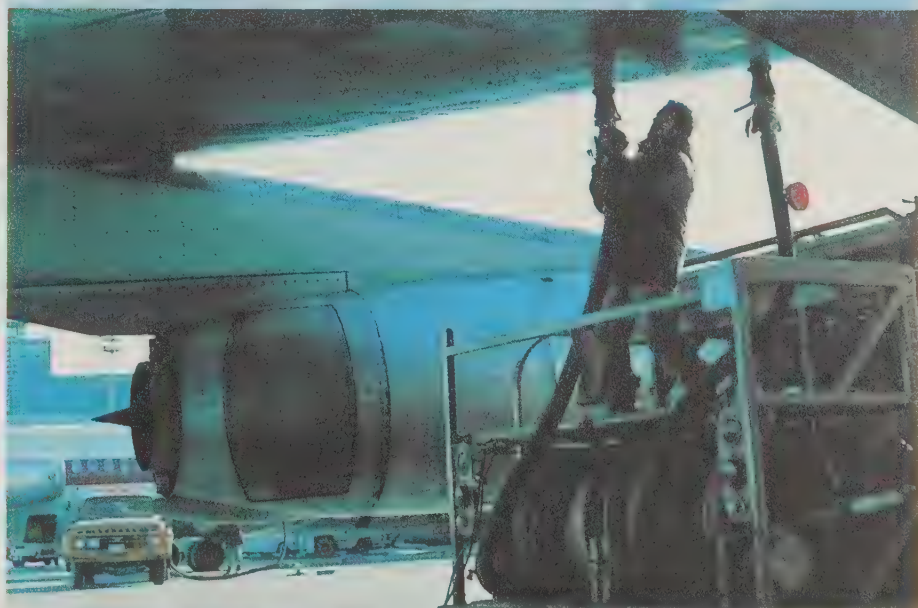
PRODUCER'S SHARE 11%

TRANSPORT
(pipeline and other) 2%

**REFINING
AND MARKETING COSTS** 16%

RETAILER'S SHARE 10%

**OIL COMPANY PROFIT
AFTER TAX** 1%



ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION

The depletion of conventional petroleum resources in Canada requires a slowdown in the growth rate of consumption and the enforcement of strict measures aimed at eliminating energy waste. Any other course of action would be unwise.

In addition to being an energy producer, FINA is also an energy consumer. For example, the cost of the fuel used by the refinery in the treatment process amounts to more than \$20 million each year. Electricity costs for the same period are \$2.5 million.

The energy conservation and recovery programme which FINA has undertaken in recent years will result in a reduction in energy consumption of 20% by 1980.

FINA hopes in this way to take an active and responsible part in the national effort to optimize our energy resources.

Environmental Protection

Between 1970 and 1978, FINA will have spent some \$30 million on a variety of anti-pollution measures. By the beginning of the 1980's, the cost of its environmental protection programme, particularly in gas treatment plants and refining, is expected to reach \$50 million.

More than 15 years ago, FINA joined forces with other industrial companies in the East Montreal area to combine resources and skills with the aim of decreasing air and water pollution. This was accomplished through the formation of the Laval Industrial Association, which has made outstanding contributions to the improvement of the quality of the environment in this highly industrialized sector of the metropolitan area.

FINA and the other Canadian oil companies recognized the need for concerted action by the

petroleum industry and government throughout Canada in order to ensure effective protection of the environment. In 1970, the Petroleum Association for the Conservation of the Canadian Environment (PACE) came into being. This group, of which FINA is a very active member, is a vast reservoir of technical and scientific resources. It works closely with public authorities in the planning and application of anti-pollution measures.

The petroleum industry has demonstrated its willingness to do whatever is necessary to protect the health and welfare of the community but insists that all anti-pollution measures legislated by government should be demonstrably necessary and yield benefits commensurate with the expenditures involved, and on this basis agrees that government action can be necessary and beneficial. However, disagreements can evolve when industry believes that regulatory action taken by government is based on misconceptions or incomplete evidence.

The fact is that environmental protection and energy conservation can become contradictory and self-destructive goals if they are pursued simultaneously without measuring the impact of one on the other. They can exist in harmony, provided proof is shown, by government as well as by industry, of realism and effectiveness.



FINA'S CANADIAN TEAM

FINA's team in Canada is made up of geologists, engineers, chemists, carpenters, plumbers, accountants, salesmen, administrators, secretaries, technicians in all fields, and others. They number nearly 2,300, located in the Maritimes, Quebec, Ontario and Alberta, working in every sector of company activity: exploration, production, supply, transportation, refining, petrochemistry, marketing, and administration.

The greater part of the work force is employed in Quebec, where the company's Head office and refining facilities are located.

FINA's team can be broken down into four major sectors:

- Administration (Head office): 410
- Marketing: 1,240
- Exploration and development: 220
- Refining and petrochemistry: 430

The company, with an annual payroll of over \$40 million, provides full-time employees with a complete range of benefits as well as training and upgrading programs in all sectors of activity.

FINA believes that it is essential that all members of the team, whatever their level, be associated with the objectives and development strategies of the company.

For this reason, the company seeks to create and stimulate a steady climate of consultation and communication. Information meetings, internal publications and a variety of social activities are all means by which dialogue and participation are encouraged throughout the organization.

PETROFINA CANADA

COMPARATIVE EVOLUTION
OF THE PAYROLL
(including benefits)
AND NET PROFITS
1972 TO 1977

(in thousands of dollars)



*ESTIMATE



PETROFINA IN THE WORLD

Petrofina S.A., whose Head office is located in Brussels, is the fifteenth largest international petroleum company in terms of sales volume. Founded in 1920, Petrofina S.A. owns interests in 25 countries through some 200 affiliated companies. The world-wide complement of the Group numbers 21,000 persons, of whom 300 are employed at the Head office in Brussels.

The Petrofina Group's crude oil and natural gas production stand respectively at 7 million metric tons and 2.7 million cubic meters, its refining capacity at 35 million tonnes and its sales of finished products at 30 million.

Production and exploration activities are carried on in eleven countries, including the United States, Iran, Angola, Zaïre, Venezuela, and Canada, as well as in the North Sea.

FINA's fleet of ships comprises 10 vessels

bearing Belgian, French and British flags. The total naval transport capacity is 3,430,000 TDW, of which one fourth is wholly owned by the Petrofina Group. The Group also owns interests in several pipelines in Europe and America.

The Group operates itself or jointly refineries in Canada (Montreal), the United States (Texas), Belgium (Antwerp), Germany (Duisberg), Great Britain (Killingholme), Italy (Rome) and Angola (Luanda).

The Group's international sales network comprises around 17,000 FINA outlets.

Labofina, in the Brussels area, is the Petrofina Group's research centre. Here the most advanced scientific techniques are used to improve product quality and discover new uses for petroleum and petrochemical products. The centre has already taken out a large number of patents.



HISTORY

The FINA story in Canada began with two separate companies, each of them a subsidiary of Petrofina S.A.

Canadian Fina Oil Ltd., founded May 22, 1950 in Alberta, was involved entirely in the exploration and production of petroleum and gas.

Canadian Petrofina Limited, which was established in Quebec on July 1, 1953, specialized initially in the marketing of finished products; but at a very early stage in its development, it expanded activities to include transportation, supply, refining and production.

Full merger of the two related firms occurred only in 1971.

Canadian Fina Oil

Canadian Fina Oil Ltd. was founded by Trajan Nitescu, a Canadian of Romanian origin who had been employed by a subsidiary of Petrofina S.A. in Romania (Concordia) from 1927 to 1946.

In its early Alberta days, the Company set up its head office in a room at the Palliser Hotel in Calgary and the staff consisted of only two people, Mr. Nitescu and his secretary.

Capital assets of \$750,000 provided by Petrofina S.A. and a \$550,000 loan from the Royal Bank of Canada financed the first operations of Canadian Fina Oil in Canada.

From the outset, Canadian Fina Oil set about acquiring a variety of interests and concessions in Alberta oil fields. In its first year of operations, the company participated in ten drillings. One of these wells, brought in during June 1950, produced 16 barrels of oil a day. Natural gas was also discovered, but it was decided to delay production since no market for the gas then existed. It is interesting to note, however, that these wells, discovered in the early 50's, were first fully operational at the end of 1977, thanks to the development of a more viable gas market.

In 1954, the Company produced 6,000 barrels of oil. In 1955, however, it was another story. Production climbed to 3.5 million barrels. During this particularly frenetic year, Canadian Fina Oil made important discoveries in the Whitecourt and Windfall concessions, still among the Company's biggest producers. During the following decade, discoveries were made at regular intervals, and in 1965 oil production stood at nearly 5 million barrels. In 1977, the Company produced about 8 million barrels of crude oil.

Despite the size of the deposits, natural gas production was shelved for some time due to the absence of significant

markets. Gradually, however, the Company stepped up production to meet growing demand. Between 1956 and 1977, annual sales of natural gas increased from 63 million cubic feet to more than 30 billion.

Canadian Petrofina

In 1953 in Quebec, Alfredo Campo, an employee of Texaco for 25 years, formed Canadian Petrofina Limited, initially involved in the marketing of imported finished petroleum products.

Start-up financing for the young Company was provided by Petrofina S.A., who put up \$25 million in cash and \$25 million in the form of various guarantees and services.

To store its products, the Company leased old tanks along the St. Lawrence River. Only three months after it was inaugurated, Canadian Petrofina opened its first service station at l'Abord-à-Plouffe, near Montreal. Within 18 months, 400 FINA stations were in operation throughout Quebec. The Company next extended its chain of stations to Ontario and the Maritime Provinces. In 1956, it owned 1,500 stations.

The Company had two immediate ambitions, however: to have its own refinery and to acquire interests in the production of Canadian crude oil. Both ambitions were realized in 1955!

As was the case with Canadian Petrofina's cousin in Alberta, the year 1955 was a milestone in the Company's development. First came completion of the refinery in Pointe-aux-Trembles, with a capacity at that time of 20,000 barrels a day; then, the acquisition of three Canadian petroleum exploration and production companies: Western Leaseholds Ltd., Calvin Consolidated Oil & Gas Ltd., and Superior Oil Ltd. Western Leaseholds owned active wells in the Redwater field, one of the most important in the country at that period; Calvin Consolidated notably owned interests in the Athabasca oil sands which FINA hopes to develop during the 1980's.

In 1961, Canadian Petrofina bought a controlling interest in Canadian Fina Oil. Thus, the two related companies, who had up to that point operated independently, united their efforts and resources to build the company as it is known today¹. Full merger of the two companies was completed in 1971 by the consolidation of their assets.

(1) In 1969, Canadian Petrofina Limited was renamed Petrofina Canada Ltd.





A publication of Petrofina Canada Ltd.,
1, Place Ville-Marie, Montreal, Que., H3B 4A9, Canada.

December 1977.

(Cette brochure est également publiée en français).

For further information,
contact the Public Relations Department.

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SECOND QUARTER REPORT

For the Six Months Ended June 30, 1977

Comparative Highlights

Financial

	1977	1976	% Change
	(in thousands of dollars except per share amounts)		
Revenues	\$258,500	\$240,800	+ 7.3
Net earnings	12,500	7,500	+ 66.7
— per common share ..	1.25	.76	+ 66.7
Funds generated from operations	32,000	22,500	+ 42.2
—per common share	3.20	2.26	+ 42.2

Operating

(rates per day)

Production of crude oil and natural gas liquids			
— gross (barrels)	18,884	18,098	+ 4.3
Natural gas produced and sold			
— gross (thousands of cubic feet)	84,974	90,148	— 5.8
Sales of sulphur (long tons)	483	326	+ 48.2
Crude oil processed at refinery (barrels)	73,408	78,967	— 7.0
Refined products sold (barrels)	70,065	77,235	9.3

To the Shareholders

The increase in net earnings for the first six months of 1977 compared with the previous year was due mainly to increases in wellhead prices for crude oil, condensate and natural gas.

The gross profit margins on refined products continued to show improvement over the same period of 1976. The margins, however, are not yet sufficient to adequately cover operating expenses, nor do they provide for anything resembling a reasonable rate of return on our investment.

Petrochemical sales for the first half of 1977 increased by 23.7% compared with the same period in 1976. The market for aromatics has softened and profit margins have been reduced.

Our drilling activity continued at a high level during the second quarter of 1977. The company participated in the drilling of 23 wells, of which 8 were completed as oil or gas wells, 3 were awaiting completion and 12 were abandoned. In addition, six wells were drilling at the end of the quarter.

The Alberta and Federal Governments have indicated a renewed interest in oilsands mining projects. A joint federal provincial committee has been studying alternate tax, royalty and other fiscal terms which might encourage the private sector to proceed with another project.

P. A. Nadeau,
Chairman of the Board

PETROFINA CANADA LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the Six Months Ended June 30, 1977
(Unaudited)

	<u>1977</u>	<u>1976</u>
	(in thousands of dollars)	
Revenues:		
Operating revenue	\$256,405	\$237,125
Interest and other	<u>2,055</u>	<u>3,678</u>
	<u>258,460</u>	<u>240,803</u>
Expenses:		
Product costs, operating, and administrative expenses	217,432	209,201
Depreciation	7,719	7,346
Depletion	3,980	3,260
Amortization of premiums paid on acquisitions	247	219
Interest on long-term debt	4,185	5,365
Other interest	1,285	570
Taxes other than income taxes	4,137	4,027
Income taxes	<u>6,944</u>	<u>3,280</u>
	<u>245,929</u>	<u>233,268</u>
Net earnings	<u>\$ 12,531</u>	<u>\$ 7,535</u>
Retained earnings, beginning of year ..	\$126,684	\$115,621
Add net earnings for the year to date	<u>12,531</u>	<u>7,535</u>
	139,215	123,156
Deduct dividends	<u>5,486</u>	<u>5,486</u>
Retained earnings, end of period	<u>\$133,729</u>	<u>\$117,670</u>
Earnings per share	<u>\$1.25</u>	<u>\$0.76</u>

Approved on behalf of the Board:
P. A. Nadeau, Director
J. E. Baugh, Director

See accompanying note

PETROFINA CANADA LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended June 30, 1977
(Unaudited)

1977 1976
(in thousands of dollars)

SOURCE OF WORKING CAPITAL:

Operations—		
Net earnings	\$12,531	\$ 7,535
Depreciation, depletion and amortization	12,123	10,996
Deferred income taxes	7,371	3,780
Miscellaneous	—	184
Total funds from operations	32,025	22,495
Long-term borrowings	2,614	3,751
Issue of shares	519	—
Sale of properties, plant and equipment	1,085	1,850
Minority interest	39	191
Net decrease (increase) in investments and advances	4,387	(643)
	<u>40,669</u>	<u>27,644</u>

APPLICATION OF WORKING CAPITAL:

Additions to properties, plant and equipment	27,118	18,636
Repayments of long-term debt	7,530	9,064
Dividends	5,486	5,486
Increase in deferred charges	77	55
	<u>40,211</u>	<u>33,241</u>
Net increase (decrease) in working capital	458	(5,597)
Working capital, beginning of year	73,684	69,969
Working capital, end of period	<u>\$74,142</u>	<u>\$64,372</u>

NOTE TO FINANCIAL STATEMENTS

The Federal taxation authorities have examined certain transactions with a non-resident wholly-owned subsidiary company and have recently issued notices of reassessment against the company reducing costs claimed for the years 1970 through 1975. These assessments, if upheld, would increase the Company's provision for income taxes and interest attributable to those years by \$18.7 million in total.

The amount that would be immediately payable does not exceed \$11.6 million because of the availability of capital cost allowances.

Management strongly disagrees with the assessments which appear to be contrary to an understanding reached with such authorities in respect to prior taxation years. The Company's tax counsel have also recommended that these assessments be contested and, accordingly, no provision has been made in the accounts for these amounts.

PETROFINA CANADA LTÉE ET SES FILIALES

ÉTAT CONSOLIDÉ DU BÉNÉFICE ET DES BÉNÉFICES NON RÉPARTIS

Pour le semestre terminé le 30 juin 1977
(avant vérification)

	<u>1977</u>	<u>1976</u>
	(en milliers de dollars)	
Revenus:		
Revenus d'exploitation	\$256,405	\$237,125
Intérêts et autres	2,055	3,678
	<u>\$258,460</u>	<u>\$240,803</u>
Frais:		
Prix de revient des produits, frais d'exploitation et d'administration	217,432	209,201
Amortissement	7,719	7,346
Épuisement	3,980	3,260
Amortissement des excédents payés lors d'acquisitions	247	219
Intérêts sur la dette à long terme	4,185	5,365
Autres intérêts	1,285	570
Taxes autres que les impôts sur le revenu	4,137	4,027
Impôts sur le revenu	6,944	3,280
	<u>245,929</u>	<u>233,268</u>
Bénéfice net	<u>\$ 12,531</u>	<u>\$ 7,535</u>
Bénéfices non répartis au début de l'exercice	\$126,684	\$115,621
Ajouter bénéfice net pour l'année à ce jour	12,531	7,535
	<u>139,215</u>	<u>123,156</u>
Déduire dividendes	5,486	5,486
Bénéfices non répartis à la fin de l'exercice	<u>\$133,729</u>	<u>\$117,670</u>
Bénéfice par action	<u>\$1.25</u>	<u>\$0.76</u>

Approuvé pour le Conseil d'administration:
P. A. Nadeau, administrateur
J. E. Baugh, administrateur

Voir la note ci-jointe

PETROFINA CANADA LTÉE ET SES FILIALES

ÉTAT CONSOLIDÉ DE L'ÉVOLUTION DE LA SITUATION FINANCIÈRE

Pour le semestre terminé le 30 juin 1977
(avant vérification)

	<u>1977</u>	<u>1976</u>
(en milliers de dollars)		
PROVENANCE DES RESSOURCES FINANCIÈRES:		
Exploitation—		
Bénéfice net	\$12,531	\$ 7,535
Amortissement et épuisement	12,123	10,996
Impôts sur le revenu différés	7,371	3,780
Divers	—	184
Total des fonds provenant de l'exploitation	32,025	22,495
Emprunts à long terme	2,614	3,751
Émission d'actions	519	—
Ventes de propriétés, installations et équipement	1,085	1,850
Participation minoritaire	39	191
Diminution (augmentation) nette des investissements et avances	4,387	(643)
	<u>40,669</u>	<u>27,644</u>
AFFECTATION DU FONDS DE ROULEMENT:		
Additions aux propriétés, installations et équipement	27,118	18,636
Remboursement de la dette à long terme	7,530	9,064
Dividendes	5,486	5,486
Augmentation des frais reportés	77	55
	<u>40,211</u>	<u>33,241</u>
Augmentation (diminution) nette du fonds de roulement	458	(5,597)
Fonds de roulement au début de l'exercice	<u>73,684</u>	<u>69,969</u>
Fonds de roulement à la fin de l'exercice	<u>\$74,142</u>	<u>\$64,372</u>

NOTE AUX ÉTATS FINANCIERS

Après une étude de certaines transactions effectuées avec une filiale en propriété exclusive non résidente, les autorités fiscales fédérales ont récemment adressé à la compagnie des avis de cotisation réduisant les coûts réclamés pour les années 1970 à 1975 inclusivement. Ces nouvelles cotisations, si elles étaient maintenues, augmenteraient d'un montant total de \$18.7 millions la provision de la compagnie pour impôts sur le revenu et intérêts relativement à ces années.

Le montant qui deviendrait immédiatement payable ne dépasse pas \$11.6 millions en raison de la disponibilité des déductions pour amortissement.

La direction s'oppose fortement à ces cotisations, qui semblent contraires à une entente intervenue avec ces mêmes autorités à l'égard des années d'imposition antérieures. De plus, le conseiller fiscal de la compagnie a recommandé de contester ces cotisations et, en conséquence, aucune provision n'a été faite dans les comptes pour ces montants.



RAPPORT DU DEUXIÈME TRIMESTRE

Pour le semestre terminé le 30 juin 1977

Quelques points de comparaison

Finances

	1977	1976	% Changement
	(en milliers de dollars, sauf les montants par action)		
Revenus	\$258,500	\$240,800	+ 7.3
Bénéfices nets	12,500	7,500	+ 66.7
— par action ordinaire ..	1.25	.76	+ 66.7
Liquidités totales	32,000	22,500	+ 42.2
— par action ordinaire ..	3.24	2.26	+ 42.2

Exploitation

(Cadences par jour)

Production de pétrole brut et condensats			
— brut (barils)	18,884	18,098	+ 4.3
Gaz naturel produit et vendu			
— brut (en milliers de pieds cubes)	84,974	90,148	— 5.8
Vente de soufre (tonnes fortes)	483	326	+ 48.2
Pétrole brut traité par la raffinerie (barils)	73,408	78,967	— 7.0
Ventes de produits raffinés (barils)	70,065	77,235	— 9.3

Aux actionnaires

L'accroissement des bénéfices nets pour les six premiers mois de 1977, comparativement à l'année dernière, est attribuable en grande partie à la hausse du prix au puits du pétrole, du condensat et du gaz naturel.

Les marges bénéficiaires brutes sur les produits raffinés ont continué à s'améliorer, au regard de la même période en 1976. Ces marges ne sont toutefois pas encore suffisantes pour couvrir convenablement les frais d'exploitation, non plus que pour assurer ce qui pourrait ressembler à un rendement raisonnable sur le capital investi.

Les ventes pétrochimiques pour le premier semestre de 1977 se sont accrues de 23.7 pour cent, par rapport à la période correspondante de 1976. Le marché des aromatiques a fléchi et les marges bénéficiaires s'en sont trouvées réduites.

Nous avons poursuivi à vive allure notre activité de forage au cours du deuxième trimestre de 1977. La compagnie a participé au forage de 23 puits, dont 8 ont été terminés comme puits de pétrole ou de gaz, 3 étaient en voie de parachèvement et 12 ont été abandonnés. De plus, 6 puits étaient en forage à la fin du trimestre.

Les gouvernements de l'Alberta et du Canada ont manifesté un intérêt accru dans les projets d'exploitation des sables bitumineux. Un comité fédéral provincial a étudié d'autres modalités en matière d'impôts, de redevances et autres aspects fiscaux, qui pourraient encourager le secteur privé à la mise en oeuvre d'un nouveau projet.

Le président du conseil,
P. A. Nadeau

Le 10 août 1977